



**CITY OF SCOTTSDALE  
TOURISM DEVELOPMENT COMMISSION  
BUDGET COMMITTEE**

**TUESDAY, SEPTEMBER 1, 2009**

**ECONOMIC VITALITY CONFERENCE ROOM  
4021 NORTH 75<sup>TH</sup> STREET, SUITE 102  
SCOTTSDALE, ARIZONA 85251  
APPROVED MINUTES**

**PRESENT:** Mike Surguine  
Kate Birchler  
Sam Fox

**STAFF:** Kathy O'Connor, Tourism Development Manager  
Steve Geigamah, Tourism Development Coordinator  
Lee Guillory, Financial Services Manager  
Scott McCarty, Financial Services

**GUESTS:** Rachel Sacco, CVB

**1. Call to Order/Roll Call**

Chairman Surguine called the meeting of the Scottsdale Tourism Development Commission Budget Committee to order at 4:12 p.m.

**2. Review of FY09/10 Bed Tax Budget and Tourism Development Program Funding Options**

Ms. O'Connor noted that the Tourism Development Commission (TDC) did not vet the Budget Subcommittee's recommendations at the August 18 meeting because of the significant change in bed-tax revenues. TDC Chairman Holdsworth requested that the Subcommittee review the situation before any potential recommendation is made at the September 15 TDC meeting.

Mr. McCarty presented a broad view of the budget situation. He noted that the yield from the bed-tax revenue continues to fall, and has not shown signs that it has hit bottom yet as other Valley revenues have recently. The FY08/09 budget actuals fell almost \$2 million short of the estimates. The City took in \$6.1 million in bed tax last fiscal year,

but \$6.5 million is budgeted for FY09/10. This would require a 7% growth rate, however, there are no signs that this growth is occurring. In order to cover the shortfall, the City would either have to bring money in from another fund or reduce expenses. Either of those options would require Council approval. Depending on the magnitude of the anticipated revenue shortfall, the deficit could be from \$400,000 to \$1 million.

Ms. O'Connor noted that the zero deficit would be based on Soleri Bridge funding being taken out. If the bridge were left in, then the projected decrease would be \$570,000 greater. Mr. McCarty said the Soleri Bridge does not have money, and the Staff recommends that it come from the General Government CIP.

Mr. McCarty said the second component of the recommendation is to have some amount of money come from the General Fund to supplement the bed-tax. In order to make that recommendation, it would be helpful for Council to understand what that transfer would buy them. Staff is asking the CVB to put into context what the potential impact of a 10% rate reduction would be. Chairman Surguine said it would be important to highlight that the CVB's budget has already been reduced 23%. If the Subcommittee considers further cuts to the CVB without looking at everything else, the results would be dire. Mr. McCarty agreed that should be part of the discussion. From Staff's perspective, the solution should come from the General Fund, but Council should be made to clearly understand why. Committee Member Birchler agreed that the Subcommittee should look at all areas before considering the General Fund request. Committee Member Fox inquired whether there is a point which the Subcommittee would not want any further cuts. Instead of making small cutbacks that will not cover the shortfall, the solution would likely come from somewhere else. Committee Member Birchler said either way, Council would have to approve the recommendation.

Mr. McCarty said the goal would be to get the budget authority to solve this problem up to \$1 million. Committee Member Fox proposed going forward with only one recommendation after having considered all the other options.

Mr. McCarty highlighted that by reducing the bed-tax revenue, it would have ramifications on sales tax revenue as well. The bigger issue is determining whether to increase the bed-tax revenue or not. The first question to ask Council is how much should the City spend on tourism development, and then deal with how it is funded. The ordinance identifies four components of a good program: the events, research and strategic planning, destination marketing, and the infrastructure. Council needs to provide direction on how much should be spent in each of these areas. With that direction, Staff could determine how to fund the activities. Chairman Surguine proposed changing the word "spend" to "invest."

Mr. McCarty explained there are three components of direct tourism, the CVB contract, non-CVB operating costs, and \$600,000 for the land at WestWorld. These components total about \$8.1 million under the current budget. If the bed-tax rate were increased by 2%, the revenue base would increase by more than \$5 million. Because of current State laws, no portion of a bed-tax increase above 3% could be used for anything other than tourism-related activities. No portion of any projected Scottsdale increase could be diverted into the General Fund. Committee Member Fox noted that someone could argue that a larger percentage be taken out of the existing 3%.

Mr. McCarty said that assuming the Commission determines that \$6.8 million is appropriate for the CVB budget, the non-CVB portion were held constant, and the \$600,000 in debt service remained, then roughly a \$3.6 million surplus would be created by a bed-tax increase. That money could be allocated to debt service or could be accumulated to support projects that would enhance tourism and tourism-related activities in Scottsdale. Ms. O'Connor clarified that the CVB totals would be the total contract amounts, and include both the Fiesta Bowl and the PF Chang Rock 'n' Roll Marathon. The non-CVB operating expenses were reduced by over 55% last year.

In response to an inquiry from Chairman Surguine, Mr. McCarty said Council should view the \$6.8 million for the CVB as an absolute, regardless of the revenue number, as opposed to a relative reduction. Chairman Surguine inquired how the \$6.8 million figure was arrived at. Ms. Sacco responded that the cost derived from a discussion on a fourth option for the bed-tax allocation scenario that was discussed earlier. The CVB has never looked at the situation as being one where if the City funds the CVB at a certain level, it will get a certain amount, or if the City wants certain services, this is the amount of funding that would be required. Mr. McCarty said Staff is trying to develop the concept that that \$6.8 million is an absolute number for a list of services. If Council does not want that, then they either change the number or change the rate.

Chairman Surguine agreed with this approach, and felt it would be a step in the right direction. He inquired about a work study session. Ms. Sacco responded that the Budget Review Commission meets on September 29. The study session regarding a possible bed-tax increase could be targeted for October 13 or 20. Mr. McCarty added that the meeting on September 29 would be the time to present the short-term solution of the transfer. What would go forward to the meeting on October 13 would be a broader discussion about investing in tourism development. It is assumed that none of the new money would be used in the current year.

Chairman Surguine said this solution would define the point that bed-tax could be used for capital projects. He inquired about the possibility of making the CVB contract a multi-year contract. Ms. O'Connor responded that Staff has until April 2010 to come up with scenarios to smooth out the funding variations that the CVB has had to deal with. Mr. McCarty noted that another advantage of long-term planning is that it would enable the establishment of a long-term reserve, which does not exist now. Ms. Sacco said Council should be made aware that the investment in the CVB protects the City's sales tax revenue.

**COMMITTEE MEMBER BIRCHLER MOVED TO RECOMMEND A SUBSIDY OF UP TO \$1 MILLION FROM THE GENERAL FUND, AND IN DOING SO, ACKNOWLEDGE THE EXPENSE IMPACTS THAT WOULD OCCUR IF THAT SUBSIDY WERE NOT APPROVED BY THE CITY COUNCIL, AND TO DIRECT STAFF TO PROVIDE AN ANALYSIS OF THIS EXPENSE IMPACT ON THE TOURISM DEVELOPMENT PROGRAM, INCLUDING EXPLAINING WHAT MIGHT HAPPEN WITH THE CVB CONTRACT. COMMITTEE MEMBER FOX SECONDED. THE MOTION CARRIED UNANIMOUSLY BY A VOTE OF THREE (3) TO ZERO (0).**

**COMMITTEE MEMBER BIRCHLER MOVED TO RECOMMEND DIRECTING STAFF TO PRESENT THE TOURISM DEVELOPMENT COMMISSION WITH A REVISED VERSION OF THE PROPOSED POSSIBLE ALLOCATION OF THE BED-TAX.**

**COMMITTEE MEMBER FOX SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY BY A VOTE OF THREE (3) TO ZERO (0).**

**3. Proposed Competitor Group 2010 PF Chang Rock 'n' Roll Marathon One-year agreement**

Chairman Surguine noted that if Council approves taking the \$1 million out of the General Fund, this problem would be resolved. Ms. O'Connor said the Subcommittee is being asked to provide a recommendation to the Commission on how the funding would happen. If the Council decides they do not want to support the program with a General Fund allocation, this event could be one of the casualties. Chairman Surguine said this is another compelling reason for Council to grant the request.

**COMMITTEE MEMBER BIRCHLER MOVED TO RECOMMEND MOVING FORWARD WITH THIS AGREEMENT. COMMITTEE MEMBER FOX SECONDED. THE MOTION CARRIED UNANIMOUSLY BY A VOTE OF THREE (3) TO ZERO (0).**

Ms. O'Connor said this item would be agendized on the September 15 TDC meeting.

**4. Public Comment**

There were no public comments.

**5. Adjournment**

With no further business before the Committee, the meeting adjourned at 5:16 p.m.

Respectfully submitted,  
A/V Tronics, Inc. DBA AVTranz